

P-421/M-88-284MODIFYING AND APPROVING TARIFF

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of Northwestern Bell Telephone  
Company's Telechoice Service Offering

ISSUE DATE: September 30, 1988

DOCKET NO. P-421/M-88-284

ORDER MODIFYING AND APPROVING  
TARIFF

PROCEDURAL HISTORY

On May 4, 1988, Northwestern Bell Telephone Company (NWB or the Company) submitted a miscellaneous tariff filing to the Minnesota Public Utilities Commission (the Commission). The Company sought Commission approval to offer Telechoice service in Minnesota.

Telechoice is a product line that consists of five telephone service packages. Each offers basic local service, flat or measured, with a combination of telephone services that are currently available on an individual tariff basis (call waiting, call forwarding, speed calling, etc.) and an inside wire maintenance service, Linebacker or Linebacker-Plus, which is deregulated.

The Company would offer Telechoice to residential customers on an optional basis with no sign-up or cancellation fees. NWB stated that it discounted all services in each package except local calling. The cost of the Unlimited packages I and II is slightly lower than the cost of purchasing all the features contained in them separately. The cost of the other packages would depend on the level of a customer's usage. Usage beyond the allocated number of hours per month would cost \$.02 per minute.

On May 23, 1988 the Commission issued its ORDER ACCEPTING FILING, SUSPENDING RATES, AND INITIATING SUMMARY INVESTIGATION in this matter. The Commission directed the Minnesota Department of Public Service, (the DPS or the Department) to conduct an investigation to determine the fairness and reasonableness of the Telechoice filing.

The DPS filed its Report on July 1, 1988 recommending that the Telechoice filing be rejected. The DPS stated that the combination of regulated and unregulated services in Telechoice could be anticompetitive and that costs and revenues had not been properly allocated between the regulated and the unregulated services. Further, the DPS argued that Telechoice changes local rates which should be done through a general rate case. Finally, the DPS said that the tariff modified and expanded optional measured service (OMS) at the same time the Commission is investigating OMS pricing and structure. In the Matter of an Investigation into Northwestern Bell Telephone Company's Optional Measure Service Trial Offerings, P-421/CI-88-152.

The Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed its comments on July 5, 1988 and revised those comments on July 18, 1988. The RUD-OAG also recommended rejection of the filing. The RUD-OAG argued that the Telechoice tariff was anticompetitive, the pricing changes proposed for local measured service would confuse customers, and the proposed usage levels change the basic concept of OMS as an optional service designed to benefit customers with less-than-average usage.

On July 15, 1988 NWB filed a response to the comments of both the DPS and the RUD-OAG.

On August 17, 1988 the Commission met to hear oral comments from the Company, the RUD-OAG, and the DPS and to consider this matter.

### FINDINGS AND CONCLUSIONS

The Commission must decide whether the proposed Telechoice rates are fair and reasonable under Minn. Stat. Sec. 237.06 (1986).

Both the DPS and the RUD-OAG objected to the inclusion of the deregulated inside wire maintenance services, Linebacker or Linebacker-Plus, in the Telechoice packages. They argued that the bundling of regulated and unregulated services is anti-competitive and could result in cross-subsidization of the unregulated service by the regulated service.

The Company offered to eliminate Linebacker services from the Telechoice packages.

The Commission shares the concerns of the DPS and the RUD-OAG. Inside wire was detariffed by the Federal Communications Commission effective January 1, 1987 and by the Commission on December 31, 1986. Today, NWB competes with electrical contractors and telecommunications vendors to provide inside wire maintenance services to customers. The Commission encourages competition in deregulated markets, but recognizes that simply deregulating a service does not of itself make that service competitive; it merely removes certain regulatory barriers to competition.

The Commission is concerned that Telechoice as originally proposed allows NWB to use its monopoly power to promote unregulated services, such as Linebacker. Competitors who provide inside wire maintenance cannot offer discounted regulated services (call waiting, call forwarding, etc.) to their customers and the Commission finds that it would be unfair to those competitors to authorize NWB to tie discounted regulated services to unregulated wire maintenance services.

Further, the Commission agrees that the original Telechoice proposal creates increased potential for cross-subsidization. The bundling of regulated and unregulated services presents cost and revenue allocation issues which the Company has not adequately addressed.

For these reasons, the Commission will require NWB to eliminate Linebacker services from the Telechoice packages. Additionally, NWB included language in the Telechoice filing that the Company reserved the right to add any unregulated service to the Telechoice packages. The Commission will require that this language be eliminated from the tariff for the reasons given above.

The Commission finds that the Telechoice Tariff as modified above is fair, reasonable, and in the public interest. The Commission will approve it. The Commission notes that Telechoice does not discount local flat or measured service, it merely offers packages of optional services which are discounted. Any discounts to these optional services are designed to stimulate sales of the optional services with the increased revenues benefitting all NWB's ratepayers. The Commission believes that consumers are able to analyze their telephone needs and may be able to save money by choosing one of the Telechoice packages. Consumers should have the opportunity to make these choices. The Commission notes that the Company has stated that there is no charge for switching to or from any Telechoice package or from one package to another.

Regarding the pricing and scope of the measured service included in Telechoice, the Commission notes that it is currently investigating NWB's provision of optional measured service and will evaluate it this fall. In the Matter of an Investigation into Northwestern Bell Telephone Company's Optional Measured Service Trial Offerings, P-421/CI-88-152. The Commission believes that the concerns raised here may more appropriately be addressed in that generic investigation. Further, if the Commission orders a change in service or rates for OMS as a result of the investigation, Telechoice would be adjusted accordingly.

### ORDER

1. The Commission hereby approves Northwestern Bell Telephone Company's Telechoice tariff as modified above.
2. Northwestern Bell Telephone Company shall file revised tariffs reflecting the terms of this Order within 10 days.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

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